

Customer Relationships May Not Be Trade Secrets



By Theodore G. Baroody

In a relatively recent order denying a plaintiff's application for preliminary injunction, Judge Mazzant of the U.S. District Court for the Eastern District of Texas, Sherman Division, considered whether certain "customer relationships" established by the plaintiff oil and gas investment firm constituted a "trade secret." The defendants had left their employment at the investment firm to form a similar venture after having signed non-disclosure and non-solicitation agreements as part of their employment agreements. The owner of the plaintiff investment firm testified:

"Q: You paid them to have relationships. You just testified –

A: Yes, sir. That's -- that's what my company does for my brokers. They all have relationships with their investors.

Q: And your position is that Thoroughbred [the plaintiff] owns those relationships, right?

A: Absolutely. They are my investors to begin with. Without Thoroughbred, you would have never known who the investors were. So whether they are public or not, it's null and void. If you didn't know who Brandon Duncan was, then you wouldn't even know who to look up with LinkedIn. It's just a bunch of names and numbers in your book."



Judge Mazzant found that plaintiff's evidence failed to establish a primary element of a trade secret: secrecy. The Court held:

"Customer relationships do not qualify as trade secrets just because a company invests time and money to cultivate those relationships. This is the very reason why many employers insist upon non-compete agreements: to protect their goodwill and to prohibit former employees (for a reasonable period of time) from being able to take advantage of that time and investment to their detriment. Thoroughbred cannot rely on DTSA or TUTSA to protect the relationships because the DTSA and TUTSA protects an employer's secrets, not its relationships." (Citations omitted.) The Court had also found that there was evidence that certain investors were either known already to a defendant prior to his employment with plaintiff, or the investor was brought to the new firm by another.

This noteworthy decision is the first instance in Texas known to the author where a court granted a seizure order pursuant to 18 U.S.C. § 1836 of the relatively new federal Defend Trade Secrets Act ("DTSA"). Judge Mazzant had ordered the federal marshals to seize a certain HP laptop at the offices of the defendant. However, the laptops that were located at the office did not match the description of the HP laptop which was never located. Plaintiff then filed a motion for forensic examination of the laptops and communication devices in the possession of the defendants. Judge Mazzant ultimately denied this latter motion as moot in light of his ruling on the trade secret issue.

This decision is quite useful and timely, as it illustrates the immediate remedies to preserve evidence available to a plaintiff in a civil, federal trade secret case - - as long as the information at issue is, in fact, secret. In an emergency situation with a former employee, in a known criminal context, headed to the airport with a thumb drive and a ticket on an international flight, a better remedy might be a call to the local field office of the FBI.

The case is Civil Action No. 4:18-CV-00318 in the E.D. of Tex., Sherman Division.



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